



Appendix B

Blue Shield of California

CalPERS Board of Administration Workshop: Single Administrator Model for Delivery of Health Benefits Program Blue Shield of California Comments and Input

Introduction

In assessing whether and how to pursue a single administrator model, CalPERS should gather data regarding how to establish the role of a single administrator in a manner that maximizes its potential value to CalPERS beneficiaries, recognizing that there is no “perfect” way to do this, i.e., any option will have advantages and disadvantages. We have focused our input by laying out various options CalPERS might consider in pursuing a single administrator model, the pros and cons of pursuing those options, and our recommendations (if any) on which option to pursue rather than focusing on the specific capabilities Blue Shield might bring to the role.

Given the early and exploratory stage of this initiative, we do not feel we are in a position to speculate on some of the specific financial details regarding a single administrator’s potential impact on administrative costs or member co-pays and premiums. We would need more details on what specific single administrator model ultimately would be under consideration in order to provide specific financial projections.

Value Proposition Of A Single Administrator

CalPERS needs to determine whether a single administrator model, however it is arranged, will materially improve the value (cost, quality, and service) of its health benefits program. Otherwise, such a model will only add additional complexity, cost, and risk and is simply not worth pursuing. In order to meet this hurdle, a single administrator needs to demonstrate how, by working with CalPERS and other vendors; they would address the major drivers of health care cost and quality. Specifically, how will the single administrator:

- Engage providers in a way that optimizes the efficiency, quality and value of health care delivery?
- Engage members in a way that optimizes their health status and prospects for maintaining future health and productivity?
- Develop strategies to improve the health of the entire CalPERS population?
- Serve as a valued and experienced long term partner with CalPERS on all health related issues?
- Engage public agencies in a way that maximizes the healthy growth of the CalPERS membership pool?
- Determine when and how to use specific vendors to maximize value on all these fronts?
- Gain the trust of and work with other major health plans, particularly Kaiser, and other selected vendors as appropriate?
- Demonstrate the longevity/staying power to execute on a long-term strategy, e.g., how will companies that are likely going to go through a change of ownership or management within three years demonstrate organizational commitment beyond that?

In short, for a single administrator model to be successful, the value (and added risks) should be materially better than the current CalPERS program. Irrespective of the type of organization ultimately chosen to become the single administrator (if any), moving to this model creates potential additional complexity, risks, and costs. These need to be effectively addressed before CalPERS makes the choice to pursue a single administrator model. If it is determined that a single administrator model will not materially improve the value provided to beneficiaries, then CalPERS should consider other options to achieve sustainable, improved performance.

What Type Of Entity Should Be The Single Administrator?

To keep things at a fundamental level, we have broken this down to two categories: health plans and non-health plans. Non-health plans could include third party administrators, network rental organizations, “integrators”, consultants, or other entities that provide administrative services.

	Advantages	Disadvantages
Health plan	<ul style="list-style-type: none"> • Best network deals/ provider relationships and ability to drive a strategy of influencing providers • Selling and managing health benefits to public agencies is a core competency • All health plans have varying levels of expertise in trying to influence member behavior • Significant experience with assessing and managing UM, QM, DM, and wellness programs 	<ul style="list-style-type: none"> • Bias toward “bundling” services • Potential conflicts of interest, e.g., addressing risk fragmentation, unbundling, “overseeing” the selection of a different network plan
Non-health plan	<ul style="list-style-type: none"> • Potentially greater neutrality in determining when to “bundle” vs. “unbundled” and how to address risk fragmentation • Potentially fewer conflicts of interest 	<ul style="list-style-type: none"> • Bias toward “unbundling” • Lack of competitive provider deals and relationships • Depending upon the entity, there could be a conflict of interest, e.g., if an organization provides a service such as disease management and is also driving the decision whether to unbundled this service

Funding Arrangements, Risk Management and Delivery Of Cost-Effective And Quality Health Care Services

CalPERS should be self-funded whenever it is legally possible, with significant performance incentives for all partners and vendors including the single administrator. Ideally, CalPERS would pool and manage the financial risk of all products and members from one financial pool. A qualified, third-party actuary should measure and manage any risk-adjusted premium methodology. Should CalPERS pursue risk adjusted premium, we believe the best option is a combination of geographic and DXCG (age, sex, illness burden) adjustments.

Decisions regarding how best to bundle/unbundle health care services need to remain with CalPERS as any single administrator will have its own biases or potentially conflicts of interest in these decisions. The key to success in making good decisions is to get high quality, insightful, and objective analysis. Defining in advance how an initiative will achieve improved cost and quality performance, how success will be measured, who will be measuring it, and how the analysis will be completed to ensure objectivity are all important. In addition, putting “pay-

for-performance” incentives in place for a single administrator that are tied to improved cost and quality of health care performance based on these objective measures will make them motivated to get the best option available in place as soon as possible.

Recommendations

In determining what specific single administrator model, if any, should be pursued, form should follow substance. The key is to establish a clear, innovative, long-term strategy and then establish a structure that best supports making that strategy happen. CalPERS will need to develop a structure that sets up success even if it dramatically changes roles and responsibilities from today. If CalPERS were to decide to pursue a single administrator model, an important part of any bid process should be for candidates to describe in depth how they would get organized and structured to deliver on the innovative, ambitious, long-term agenda.

We believe a network health plan is the most logical choice to become a single administrator, because a network health plan has the greatest ability to influence provider behavior, which will be necessary for a single administrator to hit the threshold of achieving material improvement in value. Additionally, network health plans are unlikely to perform this function as effectively working with a third party that would have access to information and methods regarding provider networks that any health plan would consider proprietary. If CalPERS is seriously considering a network health plan to be the single administrator, that plan should be managing all of the medical products and networks for CalPERS.

Additional Factors to Consider if a Single Administrator Model is Pursued

A single administrator would need to provide an innovative long term strategy for partnering with CalPERS to address the drivers of healthcare costs and quality – and the demonstrated ability to deliver on such a comprehensive strategy. The value to Cal PERS of this single administrator model should be materially better – and the risks more controlled - than the existing arrangements. Ideally, the single administrator would already be very experienced in managing the health care needs of large populations and have an established infrastructure for key deliverables such as provider network development, utilization management, disease management, member wellness programs, etc.

Blue Shield of California is pleased to work with CalPERS as it considers the single administrator model. If there is a decision to pursue this model, we would look forward to submitting a bid for the single administrator service. If CalPERS opts not to proceed down this path, Blue Shield will work with CalPERS to identify other options to consider that would achieve sustainable, improved performance.